

THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF TUCSON, ARIZONA

**Minutes of the Special Meeting
of the Board of Directors**

November 18, 2015

3:00 P.M.

at the office of

Business Development Finance Corporation

335 N. Wilmot Road, Suite 420

Tucson, Arizona 85711

And

Via teleconference

(520) 623-3377

Dial “4” to enter the conference

Dial “5150#” when prompted for password

Present:

Board Members	Marilyn Robinson Gary Bachman Emily Nottingham Judy Clinco (left at 4:45 p.m.) Adam Weinstein (arrived at 4:20 p.m.)
Staff	Charles Lotzar, Lotzar Law Firm, PC (via teleconference – left at 4:45 p.m.) Gary Molenda, Business Development Finance Corporation Karen Valdez, Business Development Finance Corporation Gabriel Gomez, Business Development Finance Corporation
Guests	Camila Martins-Bekat, City of Tucson
Absent	Evelia Martinez Larry Lucero

The Special Meeting of the Board of Directors of The Industrial Development Authority of the City of Tucson, Arizona (the “**Authority**”) was held on **November 18, 2015**, at the office of Business Development Finance Corporation, 335 N. Wilmot Road, Suite 420, Tucson, Arizona. All Authority’s Board Members and the general public were duly notified of the meeting. C. Lotzar had informed the Authority’s Board of Directors that Arizona’s Open Meeting Laws allow for members of the Authority’s Board of Directors and legal counsel to appear and participate in the meeting telephonically so long as all participants in the meeting can hear and be heard.

ITEM	ACTION TAKEN/TO BE TAKEN
1. Call to Order The meeting was called to order by Marilyn Robinson, with a quorum present.	The meeting was called to order at 3:16 p.m.
2. Request for resolution to approve the minutes of the Regular Meeting of October 8, 2015.	A MOTION was made and seconded (G. Bachman / J. Clinco) to approve the meeting minutes of the October 8, 2015 Regular Meeting as presented. Approved 4-0.
3. Request for resolution to approve the payment of invoices and the notification of items to be paid on the Authority’s behalf by third parties.	A MOTION was made and seconded (J. Clinco / G. Bachman) to approve payment of invoices and notification of items

	to be paid as presented. Approved 4-0.
<p>4. Status report from the Liaison to City of Tucson, Arizona City Manager's Office related to:</p> <p>C. Martins-Bekat provided updates on the following:</p> <p>a) The City's Economic Development Prospect list:</p> <ul style="list-style-type: none"> • 3 proposals have been advanced to 2nd round of approval process. <p>b) The City's use of the Tucson Community Development Loan Fund aka the HUD Section 108 Loan Program:</p> <ul style="list-style-type: none"> • AC Marriott: anticipates full clearance from Arizona Department of Environmental Quality ("ADEQ") by December 1, 2015. <p>c) The City's use of HOME Funds:</p> <ul style="list-style-type: none"> • 2 rental development projects are near completion (La Frontera's Rally Point and Compass Affordable Housing's Alvord Court Apartments). • 2 that are in contract and under construction (La Frontera's Sunnyside Pointe 2 which is also a Low - Income Housing Tax Credit ("LIHTC") project and Southern Arizona Land Trust's Four Corners Rental Development project). • Compass Affordable Housing's Downtown Motor Lodge LIHTC project: environmental review and the 106 process have been finalized and now under contract. • 2 additional LIHTC projects, 7th Avenue Commons and Esperanza En Escalante, are both in the environmental review phase. <p>d) The City's use of its 21 Economic Development tools:</p> <ul style="list-style-type: none"> • Modification to Primary Jobs incentive: Remove requirement that all jobs have to pay an average of \$44,500, if the company bringing in over 200 jobs. Also start charging a Government Property Lease Excise Tax ("GPLET") rent to cover staff costs. <p>e) Current items of interest:</p> <ul style="list-style-type: none"> • Tucson's Mayor is trying to increase owner occupied homeownership in the neighborhoods surrounding the University of Arizona ("U of A") - currently working with real estate groups and Vantage West Credit Union to develop favorable programs. • Downtown Tucson Partnership ("DTP") is requesting a presentation from the Authority on the process and selection of the Block 175 developer. DTP's next meetings are January 7, 2016 and March 3, 2016. • Tucson is known in terms of bioscience to site selectors. The Annual Site Selector meeting of 2017 will be held in Tucson. 	No action taken.

<p>5. Status report related to the affairs of Dark Mountain Development Corporation and request for resolution related to any actions related thereto.</p> <p>Next step is to schedule a meeting with the Tucson City Manager to discuss potential roles for Dark Mountain Development Corporation.</p> <p>C. Martins-Bekat stated that she will make arrangements for a meeting.</p>	<p>No action taken.</p>
<p>6. Status Report and recommendations of the Loan Review Committee regarding a loan request from Business Development Finance Corporation (“BDFC”) for a participation agreement with BDFC in an amount not to exceed \$150,000 and request for all actions related thereto.</p> <p>G. Bachman reported that the Loan Review Committee met on October 26, 2015 to review a participation request from BDFC for a participation in a loan to Red 417, LLC.</p> <p>Mr. Bachman noted that E. Martinez declared a conflict and she did not participate in the discussion or recommendation of this item.</p> <p>G. Gomez reviewed the summary of the proposed participation request noting that the loan was approved by Business Development Finance Corporation (“BDFC”). Summary of the loan is as follows:</p> <ul style="list-style-type: none"> • Borrower: Red 417, LLC. • Participation loan amount: \$150,000. • Loan term: 10 year term with a 20 year amortization. • Project address: 301-309 E. 7th Ave. / 414 N. 5th Ave., Tucson, AZ 85705. • Basis of eligibility: Section 3(a) of Loan Policy - Economic Development <ul style="list-style-type: none"> • Job Creation - 12 full time equivalent jobs to be created. • Secured by adequate collateral • Districts/Zones: <ul style="list-style-type: none"> • Listed on the National Register of Historic Places as a contributing structure in a designated Federal Historic District; • Central Business District; • Infill Incentive District; • Downtown Brownfields; and • Entertainment District. • Proposed covenant to the Loan Agreement: <i>“Borrower shall not take any action, or fail to take any action, that would result in the (building/property) losing its status as a ‘Contributing Building’ within the Tucson Historic Warehouse Arts District as listed in the National Register of Historic Places”</i> <p>G. Gomez stated that the initial project use will be a brewery which is still considered an underserved market. The brewery will have a full bar with entertainment and eventually, a restaurant on site.</p> <p>Discussion ensued regarding the Historic District and buildings designated as Contributing Building. It was noted that 51% of the Contributing Buildings must remain in order to maintain the designation on the Federal Registry as a Historical District. It was noted that staff consulted with various departments at the City of Tucson to ensure compliance with the requirements as it pertains to maintaining the Federal designation.</p>	<p>A MOTION was made and seconded (E. Nottingham / J. Clinco) to approve participation in a BDFC loan to Red 417, LLC and the form of Participation Agreement with BDFC, in an amount not to exceed \$150,000. Approved 4-0.</p>

<p>It was the consensus of the Authority to accept the recommendation of Loan Review Committee.</p> <p>Mr. Lotzar reminded the Authority that he and his firm do not review or document transactions of this nature and that he was comfortable the BDFC had the ability to do so.</p>	
<p>7. Status Report and discussion regarding revisions to the Loan Policy for the Community Investment Loan Program and request for resolution for any actions related thereto.</p> <p>M. Robinson stated that it was brought to the attention of the Authority, through the loan participation request discussed in Agenda item 6 above that the Loan Policy language, with regard to Authority's priorities, may need to be clarified as it pertains to the proposed project purpose and goals.</p> <p>Discussion ensued and it was the consensus to not over complicate the process. Therefore, the project's purpose and goals identified as part of the underwriting report or credit memo will note whether the project is located within any designated districts and/or zones. Proposed language will be included in the Loan Application, as it pertains to purpose, stating that "Borrower shall not take any action, or fail to take any action, that would result in the property losing its status within its designated district/zone".</p>	<p>No action taken.</p>
<p>8. Status Report related to \$40,000,000 The Industrial Development Authority of the County of Pima and The Industrial Development Authority of the City of Tucson, Arizona Revolving Taxable Single Family Mortgage Loan Program of 2012 (the "Pima/Tucson Homebuyer's Solution Program") - request for resolution related to any actions related thereto.</p> <p>C. Lotzar reviewed program. The Tucson IDA and the Pima IDA were presented with 2 options related to affordability. It was noted that these options were currently in use in the Pima Tucson Homebuyer's Solution ("PTHS") Program and the 2 options only available to Housing Finance Agency's ("HFAs") who have had a strong history related to both originations and repayment of mortgage loans.</p> <p>The 2 options each require that there be a 1% reduction in the grant to the borrower would be required to be paid. The 2 options are:</p> <ul style="list-style-type: none"> • Borrowers with FICO scores of 640 to 659 (29% of the PTHS Program's historic loan volume); and • FHA loans that involve Manual Underwriting, the consensus of the participating lenders and the Pima IDA (formally approved today) is to include those features as elected options. <p>Mr. Lotzar explained that because loan applications are accepted on a more or less daily basis, US Bank demanded a prompt response. Mr. Lotzar stated that he recommended to M. Robinson that she authorize the 2 options to give the originating lenders and the homebuyers that truly need the assistance as much flexibility as possible. Late Friday, November 13, 2015, M. Robinson (on behalf of the Tucson IDA) and the Pima IDA both agreed to approve the 2 options.</p> <p>Mr. Lotzar stated that US Bank remains the only Master Servicer participating in the "To Be Announced" or "TBA" type programs such as PTHS Program. In response to loan volume demands, US Bank's fees have increased over the life of the PTHS Program from an initial fee of \$150 per loan funded to \$300 per loan funded last year and recently increased to \$400 per loan funded. US Bank continues to charge \$85 for tax service fee per loan. Similarly, eHousingPlus remains the only participating Program Administrator in the TBA Programs, such as the PTHS Program and charges \$225 per loan today however it is expected to be \$275 per loan after January 1, 2016.</p>	<p>No action taken</p>

<p>The PTHS Program has been permitted to use the Fannie Mae HFA Preferred products. Additional decisions will be needed as to the products that will be included in the PTHS Program. It was noted that fees charged by eHousingPlus increase substantially, if the menu of loan opportunities is too expansive.</p> <p>Discussion ensued regarding default data and level of down payment assistance (3%, 4%, or 5%) that is being used.</p> <p>K. Valdez stated that she will work to get this information from eHousingPlus to be included in the monthly program summary reports. It was noted that the Authority needs to be vigilant so as not to do loans at any cost.</p> <p>C. Lotzar reminded the Authority that the 2 options were merely a continuation of the PTHS Program terms, the 2 options did not allow for new riskier loans, and the Authority does not retain ownership of the loans.</p> <p>The Authority also requested information on what the Lenders consider “mitigating factors” as justification for FICO scores at the 640 to 659 level.</p> <p>Other changes per notifications received from US Bank. Changes to begin December 1, 2015 are as follows:</p> <ul style="list-style-type: none"> • All FHA loans submitted to US Bank for purchase must have a minimum credit score greater than or equal to 660 for all borrowers on the application. • Maximum Debt to Income (“DTI”) of 45%, for loans approved through an Automatic Underwriting System. <p>Ms. Clinco and Mr. Lotzar left the meeting.</p>	
<p>9. Status report by the Authority’s Advisor related to the Authority’s financial performance through the Authority’s 1st fiscal quarter ending September 30, 2015, including a comparison of budgeted to actual results.</p> <p>G. Molenda reviewed the FY1-16 first quarter, internally prepared, financials statements including the Balance Sheet at September 30, 2015 and Profit & Loss Statement from July 1, 2015 through September 30, 2015. Primary sources of revenue continue to include income from the Parking Lots and the Single Family Programs. The Authority is at break even for the 1st quarter.</p>	No action taken
<p>10. Staff Reports:</p> <p>Monthly Staff Report for the month ending October 31, 2015.</p> <p>K. Valdez provided status on the following:</p> <p>a. General Operations of the Authority:</p> <ol style="list-style-type: none"> Parking Lot Financial Statements prepared by Pueblo Parking Systems, LLC (“PPS”) - Reports were reviewed as prepared and submitted by PPS. Bond Borrower’s payment of Administrative Fees - Current with the exception of the Miraflores and Catalunya Apartment projects. Both have been notified via regular mail and email. Cash Management - Reviewed interest bearing and non-interest bearing accounts; reviewed account balances less existing 	No action taken.

commitments and recommended reserves for an estimate of funds available.

- iv. **Loan Servicing** - G. Gomez notified the Authority that the payments on the BDFC/IDA participation loan to Planet Smoothie is delinquent for the months of **October** and **November 2015**. Mr. Gomez noted that a business consultant has contacted BDFC indicating that they are working with the owners for options. BDFC has demanded that the loan be brought current by **November 20, 2015**. BDFC will keep the Authority aware of the situation as it unfolds.
 - v. **Loan Origination** - 2 loans remain pending:
 - 1) Desert Horizons communities - There have been significant delays with the city permitting; recently passed inspection and are starting construction. Closing/funding is now anticipated for **February 2016**.
 - 2) Non-profit Loan Fund of Tucson and Southern Arizona ("NPLF") – A balance of **\$50,000** remains available to be drawn.
 - vi. **450 N. Main Street**
 - vii. **Program Updates:**
- b. **Updates:**
- i. **Federal legislation**
 - ii. **Arizona legislation**
- c. **Outstanding Single Family Programs:**
- i. **Mortgage Revenue Programs that have completed the Origination Period:**
 - A. **Series 2006 (Joint) - \$30,475,000- 1st Mortgage Loan Interest Rate 5.97% - Final Redemption of Senior Bonds July 28, 2014 - CUSIP No. 89873QAB5 Subordinate (approximately \$196,000 - 7% 2nd Mortgage Loans are tied to the Subordinate Bonds of approximately \$820,000) .**
 - B. **Series 2007A (Joint) - \$23,400,000- 1st Mortgage Loan Interest Rate 5.69% - Final Redemption of Senior Bonds July 28, 2014 CUSIP No. 89873QAE9 Subordinate (approximately \$192,000 - 7% 2nd Mortgage Loans are tied to Subordinate Bonds of approximately \$135,000).**
 - C. **Series 2008 (Joint) - \$30,000,000- Mortgage Loan Interest Rate 5.89% - Term Bonds CUSIP Nos. 898700FH7, 898700FJ3, 898700FK0 and PAC Bonds CUSIP No. 898700FL8 (approximately \$7,565,000 outstanding).**
 - D. **Restructuring Opportunities and past results.**

<p>ii. Mortgage Credit Certificate Program that is in the Origination Period – 2014 in the amount of \$5,000,000 formed on January 2, 2014 - Origination Period expired December 31, 2016.</p> <p>iii. \$40,000,000 The Industrial Development Authority of The County of Pima and The Industrial Development Authority of The City of Tucson, Arizona Revolving Taxable Single Family Mortgage Loan Program of 2012 (Pima Tucson Homebuyers Solution) – Program commenced on December 17, 2012 and unless extended expires on December 31, 2016 - over \$140,278,000 in mortgage-backed securities sold with over \$5,611,000 of down payment assistance granted to homebuyers.</p> <ul style="list-style-type: none"> • Effective with loan reservations on or after December 1, 2015, U.S. Bank Home Mortgage HFA division will no longer accept Manufactured Housing Loans. This includes all loan types purchased by the HFA division: FHA, VA, USDA/RD, Conventional (Fannie Mae and Freddie Mac). • Moody's - HFA Single Family Delinquencies continue improvement. "State Housing Finance Agencies' (HFAs) total delinquencies continued to decline through June 30, 2015, which signals improved loan performance, lower loan losses and increased mortgage loan income for their single family whole loan programs." 	
<p>11. Status Report related to development of the Request for Qualifications/Request for Proposal ("RFQ/RFP") or other process related to the potential development of Block 174 and/or Block 175 and request for resolution for any actions related thereto. Pursuant to Arizona Revised Statutes Section 38-431.03(A)(1)(3) and/or (4), the Board may vote to recess and meet in executive session for the purpose of discussion or consultation with and to provide direction to the Authority's legal counsel in connection with this item. Any action taken by the Authority regarding this matter will be taken in open meeting session (either at this meeting or at a later date) after the adjournment of the executive session.</p> <p>Next steps will be discussed at the December 10, 2015 Special Meeting.</p>	No action taken
<p>12. President's Report: Brief Summary of current events, including items brought to the President's attention or matters that required handling by the President since the last meeting.</p> <ul style="list-style-type: none"> • G. Molenda presented a request for support received from the Small Business Development Center ("SBDC"). It was noted that the Pima Community College has committed to house and financially support the SBDC for a period of 3 years beginning January 2016. Therefore, SBDC will once again have a stable base of support from which it can continue to provide the wide range of technical assistance to the Pima County/Southern Arizona small business community. However, a significant challenge remains as the SBDC must raise the required 2015 cash match to ensure receipt of Small Business Administration ("SBA") funding for continuity of serviced and staffing. Background information was provided and it was noted that the request is being presented for consideration as an exception to the Authority's policy of no grant funds. Discussion ensued and it was the consensus of the Board that a formal request with a specific request be 	No action taken.

<p>brought before the Authority for consideration at the December 10, 2015 meeting.</p> <ul style="list-style-type: none"> • The 2016 schedule of Regular Meetings was provided to the Authority. • The Authority's Holiday Dinner will be held on Thursday, December 10, 2015 following the Special Meeting. 	
<p>13. Call to the audience</p> <p>There was no one in the audience who wished to address the Authority.</p>	No action taken.
<p>14. Adjourn</p>	<p>A MOTION was made and seconded (G. Bachman / A. Weinstein) to adjourn the meeting at 5:41 p.m. Approved 4-0.</p>

Submitted by:
Karen J. Valdez
Business Development Finance Corporation

Approved by:
Marilyn Robinson, President
The Industrial Development Authority of the
City of Tucson, Arizona